



India aims to boost energy ties

India is forging energy relations with countries from Indonesia to the island of Mauritius, building a network of relationships as it seeks to boost opportunities and increase energy security.



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Sri Lankan workers at Hambantota port's oil tank farm. India recently unveiled a road map for economic cooperation with Sri Lanka, of which the energy sector is central. Ishara S Kodikara / AFP

MUMBAI // India is increasingly focusing on developing energy ties with surrounding countries, which is set to help to boost business opportunities as well as improve energy security.

India this year has been forging closer energy relations with the Indian Ocean island nation Mauritius, as well as Indonesia, among other countries.

"India is actively working to build a network of energy relationships with its neighbourhood," says Srividya Kannan, the founder and director of Avaali Solutions, a consultancy based in Bangalore. "Consider what India has done in terms of tie-ups with Mauritius, Myanmar, Indonesia, Sri Lanka and Bangladesh, and one gets a sense of the various types of relationships that have been established via this network. India is really getting its act together to best leverage this [position]."

In the case of Mauritius, for example, India already supplies petroleum products to the country, while refiner Indian Oil has a fuel retail network there. The country could be an attractive location for India to store petroleum and sell products to Africa, experts say. India's oil ministry in February said it would continue to help Mauritius meet its energy demands and bolster its energy security. India stressed that it was committed to assisting the country to become a petroleum hub through its involvement in oil and gas infrastructure development.

Meanwhile, India is nurturing an energy relationship with Indonesia. The first Indonesia-India energy forum was held in Jakarta last month. This resulted in a far-reaching agreement being signed between the countries to look at cooperating in areas including oil, electricity and energy efficiency. Specifically, this could involve India upgrading refineries in Indonesia and India sharing knowledge on renewable energy, according to the Indian government.

India also recently unveiled a road map for economic cooperation with Sri Lanka, of which the energy sector was central. These plans include building a gas-based power plant and an liquefied natural gas terminal, as well as developing a solar power plant in Sri Lanka.

Dharmendra Pradhan, India's energy minister, this month told The Times of India: "We are trying to use energy as a means of diplomacy in a very different way, not only to find overseas sources of hydrocarbons."

Experts note that the strategy is a bold move that could be lucrative for India.

"Using oil as a diplomatic tool with its level of imports is audacious to say the least," says Suhail Nathani, the managing partner of the Economic Laws Practice, in Mumbai. But he says that it is also a "brilliant" strategy for the country.

India is heavily dependent on oil imports – it is the world's third-largest importer of crude. The country's consumption of oil hit a record high last year at 196.5 million tonnes for the year, up by 11 per cent on the previous year, according to government data.

The country's energy consumption is expected to continue to rise over the coming years amid economic growth and urbanisation. Mr Nathani commends the strategy behind the move to grow its energy ties with nearby countries, because India is in a very strong position to supply those countries with refined petroleum products. "There is global demand for refined petroleum products and India's diplomacy comes in to play on this front."

The nation is far ahead of many other countries in the region in terms of the technology and capacity it has to process crude oil, he says.

Mr Pradhan recently said India plans to more than double its annual refining capacity over the coming years from its current 235 million tonnes.

While the country needs to have strategic partnerships for sourcing crude oil, it needs to look beyond this approach to generate more revenues from energy.

"Mauritius – a long-standing friend of India – requires a stable source of refined petroleum products and also bringing in technology to store and distribute petroleum products through its numerous islands," says Mr Nathani. "With Indonesia, India is seeking a dual approach. Indonesia has surplus oil and coal."

The benefits for India could be sizeable but such a relationship could allow the countries to develop an interdependency when it comes to the energy sector. India is the third-biggest importer of coal from Indonesia and a number of Indian companies have invested in coal mines in the country.

"It is a win-win situation with India's technology being made available to an oil and coal surplus country like Indonesia," says Mr Nathani. "Another consequence is that this alliance will restrict China's role in the energy markets of Indonesia."

Aaron Solomon, a partner at Solomon & Co in Mumbai, says India has traditionally been dependent on Opec countries for its oil imports. But, as it looks elsewhere to build energy relations, the opportunities are set to expand. And as India looks towards boosting alternative energy sources, fostering relations with a range of countries could be key.

"India is now strengthening energy relations with other countries to diversify its sources of oil supplies and reduce its dependence on any one nation," says Mr Solomon. "In parallel, the India government has focused on developing alternative energy sources, such as nuclear, hydro, wind and solar energy."

He says that means "significant opportunities for Indian and international businesses".

About 80 per cent of India's oil demands are met by imports.

"India's reliance on oil imports rises above 90 per cent by 2040, requiring constant vigilance as to the implications for energy security," according to the International Energy Agency (IEA),

which forecasts that India will be the fastest-growing crude consumer in the world.

But Narendra Modi, the prime minister, has set a target of reducing dependence on oil and gas imports by 10 per cent by 2022.

Beyond the region, India has been developing closer energy ties with countries including the United States and Russia. State-owned Indian oil companies, including ONGC and Indian Oil, have been spending billions of dollars to take stakes in Russian oilfields in Siberia, for example.

With India's appetite for oil set to grow, experts say its strategy of reaching out to other countries to build diplomatic energy relations is unlikely to affect its energy relations with the UAE.

"India [has said it] is on track to increase its oil imports from the UAE," says Mr Solomon. "We do not expect the change in India's energy policy to have any adverse implications on the deep-rooted energy relations between India and the UAE."

Other experts agree UAE-India relations are only set to strengthen.

"This strategic oil diplomacy will have very little, if any, impact on relations with the UAE," says Mr Nathani. "The UAE is a very vital ally for India and also a huge stable source of energy for the seemingly insatiable oil dependency in India. India's relations with the UAE traverse energy. Clearly, this is a special relationship poised to grow."

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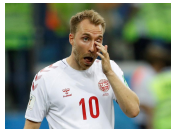
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